

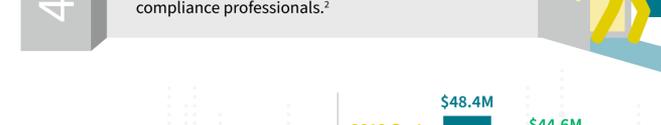
KEY TRENDS THAT WILL SHAPE THE FINANCIAL CRIME COMPLIANCE LANDSCAPE IN 2022

The world of financial crime compliance is ever evolving. From the ongoing effects of the pandemic to the rising cost of compliance and the introduction of new technology, standards and regulations, navigating this landscape has never been more complex. Here, we identify eight emerging trends that are shaping how our industry addresses the wide range of threats facing the global financial ecosystem.

1. Increased cost of compliance
2. Regulatory scrutiny outside of financial services
3. Rise of crypto
4. Sanctions focusing on human rights abuses
5. Increased focus on supply chain due diligence
6. Adoption of ISO 20022 payments
7. Growing use of AI
8. Transitioning to the cloud

1 In 2022 and beyond, financial institutions may shift towards greater investment in technology, rather than exponentially increasing labor, to automate manual processes and save on overall compliance costs.

Financial crime compliance costs have increased year-over-year, largely driven by labor. Meanwhile the “Great Resignation” trend of 2021 has caused some concern over a compliance skills gap within financial institutions.



With over 40% of the global workforce considering leaving their employer in 2021, financial institutions may face increased difficulty in employing experienced compliance professionals.³

However, financial institutions that allocated a larger share (>=50%) of financial crime compliance costs to technology experienced a smaller YoY compliance cost increase and fewer pandemic-related challenges.⁴



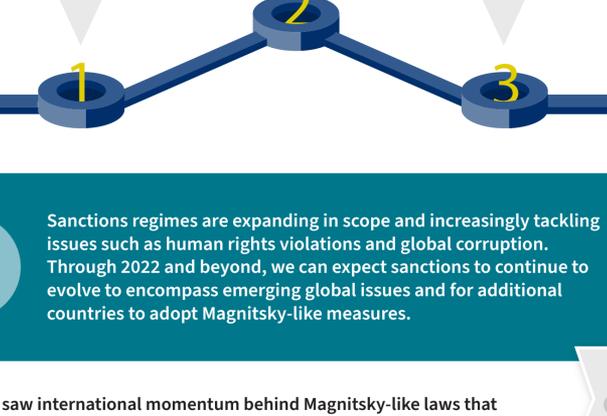
2 The Pandora Papers underlined the poor regulation of many designated non-financial businesses and professions (DNFBPs) such as legal professionals, trust and company service providers and real estate companies. Recent FATF evaluations have also highlighted regulation of DNFBPs as a deficiency in many countries. Regulatory scrutiny of DNFBPs and their approach to financial crime compliance is likely to increase throughout 2022, as part of efforts to improve global financial transparency.

In 2021, the Pandora Papers highlighted the use of offshore jurisdictions and shell companies to hide potentially unethical or criminal behavior.



3 The crypto ecosystem will face increasing regulatory scrutiny in efforts to prevent illicit activity and ensure financial crime controls such as sanctions are adhered to. FATF, the international standard-setter for anti-financial crime regulations, is leading the way in defining AML/CFT standards. FATF recently published detailed guidance on the matter that will undoubtedly guide the development of national regulations throughout 2022 and beyond.

The use of cryptocurrencies has boomed, fuelling concern over crypto-related financial crime from FATF and other regulatory bodies.



4 Sanctions regimes are expanding in scope and increasingly tackling issues such as human rights violations and global corruption. Through 2022 and beyond, we can expect sanctions to continue to evolve to encompass emerging global issues and for additional countries to adopt Magnitsky-like measures.

2021 saw international momentum behind Magnitsky-like laws that enable governments to impose economic and travel sanctions against foreign individuals or entities who are involved in serious human rights abuses and corruption.



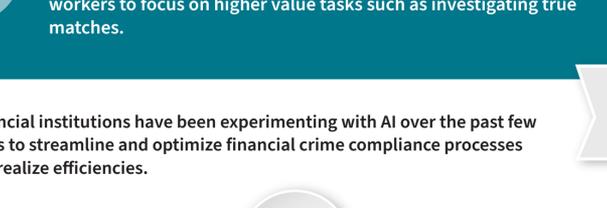
5 With Germany following France's example by establishing a due diligence framework that addresses human rights violations and environmental degradation in global value chains, other countries around the world should expect to follow suit over the next few years.

2021 saw examples of environmental, social and governance (ESG) objectives converging with AML practices across supply chains.



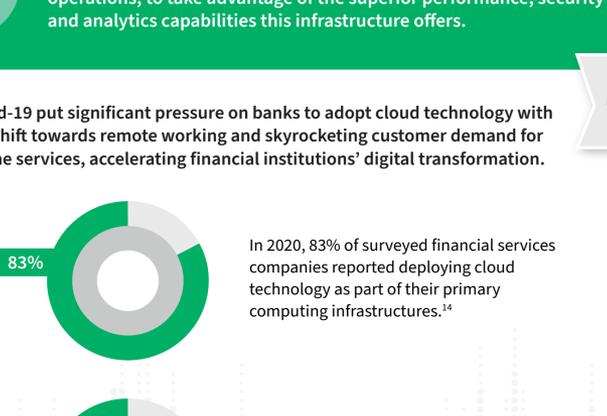
6 Although transitioning operations will require tremendous effort in the short term, financial institutions can expect the adoption of ISO 20022, a new common standard for payments messaging, to not only increase the speed of payments, but also reduce costs for compliance teams. The richer, more detailed information in messages will improve sanctions screening through targeted matching and help organizations detect and prevent financial crime.

Banks are ramping up preparations for ISO 20022 which aims to be the next model for payments data across the globe. The urgency to implement a new global standard has increased over the past few years due to the emergence of new payment methods from challenger banks, payment service providers (PSPs) and other disrupters, with the goal of achieving a fast and seamless experience for end users.



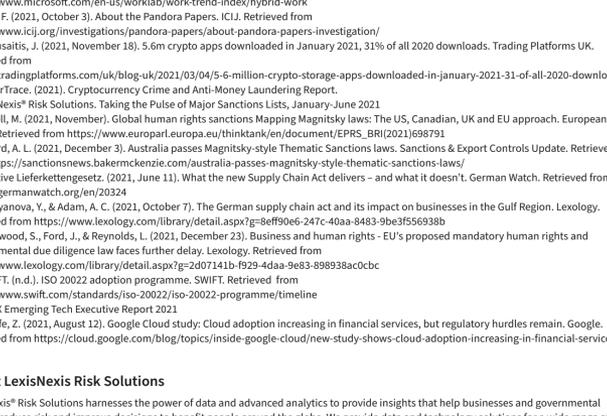
7 The use of AI and its subsets (such as advanced analytics, natural language processing and robotic process automation) will continue to drive efficiency in parts of financial crime compliance, such as the automation of the first level review process. This will allow human workers to focus on higher value tasks such as investigating true matches.

Financial institutions have been experimenting with AI over the past few years to streamline and optimize financial crime compliance processes and realize efficiencies.



8 In 2022 and beyond, we can expect to see more companies move their operations to the cloud, including their financial crime screening operations, to take advantage of the superior performance, security and analytics capabilities this infrastructure offers.

Covid-19 put significant pressure on banks to adopt cloud technology with the shift towards remote working and skyrocketing customer demand for online services, accelerating financial institutions' digital transformation.



The financial crime compliance landscape never stands still. As it continues to evolve in 2022, LexisNexis® Risk Solutions will be there to provide organizations with global risk intelligence that helps them stay ahead of emerging threats and manage complex financial crime regulations effectively.

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